

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018 / 2019

DAU5028 – AUDITING 2

(For Diploma Students Only)

13 MARCH 2019
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 5 questions.
2. Answer **ALL** questions.
3. Please write your answers in the answer booklet provided.

QUESTION 1

Royal Food Berhad is a manufacturing company which processes a wide variety of food grade ingredients such as bakery blends, dairy powders, salt, soy, gelatins and cocoa blends. The company is a new audit client for your audit firm, Jaya & Co. You are an audit senior of Jaya & Co and are currently preparing for the financial statement audit for the company. The company's year-end is 31 December 2017. You are required to document and assess the internal control in the company's sales system.

Royal Food Berhad sells their products to a wide range of bakery retailers across Malaysia. The sales are made through a network of sales staff who works in the sales department. Majority of the sales staff have been working in the company for more than 10 years. Sales staffs are responsible to checking the new customer's creditworthiness and suggesting a credit limit which is then authorised by the sales manager. Each of the sales staff has personal monthly sales target. The sales staffs are able to use their own personal decision to provide sales discounts up to a maximum of 20%. The sales staff will record the discount rate in the customer master file.

The sales staffs visit bakery retailers (customer) personally. For each order placed by the customer, the sales staff will record it in sales order form. Two copies of sales order forms are prepared. One copy is left with the customer and the other copy is retained by the sales staff. The sales order form number is based on the sales staff's identification number (ID). The sales staffs are confident that the company's inventory level is adequate to cater all orders at all time. Thus, they did not check the orders with inventory records at warehouse.

The company promised the customer that shipping will be made within four working days. Once the order is taken, the sales staffs email the sales order details to the accounting department and warehouse. The sales staff will prepare a sequential pre-numbered picking ticket and send it to warehouse. Warehouse staffs prepare the goods based on the sales order details and picking ticket. Warehouse manager signed picking ticket as approval of transfer of goods from warehouse to shipping department.

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Upon receiving the goods from warehouse, shipping staff will count and check the details of good with the picking ticket. If the descriptions and quantity of the goods match as the detail in the picking ticket, the staff will sign and affix the stamp "Received" on the picking ticket and pack the goods. For each delivery, shipping staff prepare a sequential pre-numbered delivery order form based on the details from picking ticket. Goods are delivered to customers based on delivery schedule. Due to tight delivery schedule, the shipping staff does not always record the customer's signatures on delivery order as proof that the customer has received the goods.

Once the good are delivered, a copy of signed delivery order is sent to accounting department and sequential pre-numbered sales invoice is prepared and checked to the delivery order.

Required:

Identify and explain any **FIVE (5)** weaknesses of internal control in the company's sales system. For each weakness, explain the risk that may happened in the company.

(Note: Use the table format below to write your answers)

No	Weaknesses	Explanation of risk
1.		
2.		
3.		
4.		
5.		

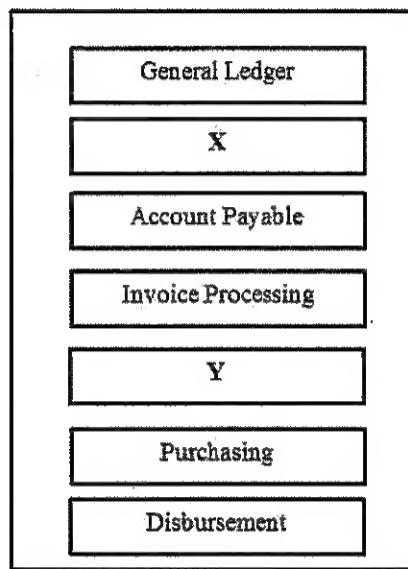
(20 marks)

(Total: 20 marks)

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QUESTION 2**PART A**

Figure 1 shows the 7 main functions of purchasing cycle. However, two of the main functions are missing and all the function are not in correct sequence.

**Figure 1****Required:**

- (a) Identify and explain TWO (2) missing functions (X and Y). (6 marks)
- (b) Arrange the SEVEN (7) functions of purchasing cycle according to the correct sequence.

(Note: Use the table format below to write your answers)

No.	Functions
1.	
2.	
3.	
4.	
5.	
6.	
7.	

(7 marks)

- (c) State and explain ONE (1) document involved in "Purchasing" function. (3 marks)

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PART B

Biz Consultation Berhad specializes in providing services to different sizes of organizations around Malaysia. The company provides various types of consultancy, research, training and technical supports to improve their customer's business performance.

Required:

Based on Malaysian Financial Reporting Standard (MFRS) 118, state **FOUR (4)** conditions that Biz Consultation Berhad need to fulfill before the company can recognise their revenue.

(4 marks)

(Total: 20 marks)

QUESTION 3**PART A**

The audit objectives are closely related to management assertions.

Required:

- (a) Define management assertion. (2 marks)
- (b) Explain the following audit objectives:
- i. Completeness
 - ii. Existence
 - iii. Cut-off
 - iv. Right and Obligation
- (8 marks)

PART B

You are auditing the sales cycle for Uni-health Berhad, a pharmaceutical company located at Bukit Beruang, Melaka. Based on the audit plan, you need to perform confirmation process to examine the company's account receivables balance. You have to decide the appropriate type of confirmation to be used in the engagement.

Required:

- (a) What is the purpose of confirmation process? (2 marks)
- (b) Identify and explain the different types of confirmation you may use in the engagement. (6 marks)

Continued...

- (c) List any **TWO (2)** matters you need to consider to decide the appropriate type of confirmation to be used in the engagement. (2 marks)

(Total: 20 marks)

QUESTION 4

PART A

Your firm is the auditor of Win Engineering Berhad. As an audit assistant, you are required to perform an audit for the purchasing cycle of the company for the year ending 30 June 2018. The account payable subsidiary ledger of Win Engineering Berhad shows 50 active accounts. You have been asked by the senior-in-charge to perform analytical procedures and substantive test of transactions to verify the fairness of the account payable.

Required:

- (a) State any **TWO (2)** analytical procedures you may perform to verify the account payable. (4 marks)
- (b) State the substantive test of transactions you may perform to verify the following audit objective.

(Note: Use the table format below to write your answer)

Audit Objective	Substantive test of transaction
i. Existence of purchase transaction	
ii. Completeness of purchase transaction	
iii. Accuracy of purchase transaction	
iv. Cut-off of purchase transaction	

(8 marks)

Continued...

PART B

- Purchases of machinery
- Depreciation of machinery

Figure 2

Figure 2 shows two types of transactions related to property, plant and equipment (PPE) that commonly exist in a company. For most companies, these PPE represent a material portion of the total asset and they are significant in the presentation of company's financial statement.

Required:

- (a) Describe any **ONE (1)** internal control for each of the transactions in **Figure 2**.
(4 marks)
- (b) State the substantive test of account balance an auditor may perform to verify the following audit objectives.
- i. Right and obligation of machinery
 - ii. Depreciation of machinery

(Note: Use the table format below to write your answer)

Audit Objective	Substantive test of account balance
i. Right and obligation of machinery	
ii. Accuracy of depreciation expense	

(4 marks)

(Total: 20 marks)

Continued...

QUESTION 5**PART A**

It is important for an auditor to understand the different types of prepaid expenses and accrued liabilities because the auditing procedure for each varies.

Required:

- (a) Differentiate between prepaid expenses and accrued liabilities. (4 marks)
- (b) Provide any **TWO (2)** examples of accrued liabilities and **TWO (2)** examples of prepaid expenses typically found a company. (4 marks)
- (c) State **ONE (1)** analytical procedure auditor can use to examine the fairness of prepaid expenses and accrued liabilities in the company.

(4 marks)

PART B

Debt capital is one instrument in capital and repayment cycle. It is one of the main sources of financing business operation which appears in Statement of Financial Position as long-term liabilities.

Required:

- (a) Explain any **TWO (2)** internal controls related to long-term liabilities. (4 marks)
- (b) Provide any **TWO (2)** audit procedures an auditor may conduct to examine the existence of long-term liabilities in a company. (4 marks)

(Total: 20 marks)

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